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Plaintiff-Intervenor MPHJ Technology Investments, LLC (“MPHJ”) respectfully submits this Memorandum in Support of MPHJ’s Motion for Preliminary Injunction With Respect to Patent Inquiry, Licensing and Notice Correspondence.

PROCEDURAL BACKGROUND

This Court is aware from previous briefing that on July 18, 2013, the Nebraska Attorney General’s Office, and in particular, Defendants Bruning, Cookson and Lopez (“the AG Defendants” or “the Nebraska AG”) issued a Cease-and-Desist Order against Farney Daniels PC. That July 18 Order ordered the law firm to “immediately cease and desist the initiation of any and all new patent infringement enforcement efforts within the State of Nebraska” on behalf of all of its clients. Dkt. 52-13. At the time, Farney Daniels represented Activision TV, Inc. (“Activision”) and MPHJ in connection with those companies’ respective enforcement of their patents.

Plaintiff Activision filed the First Amended Complaint in this action, seeking a declaration that its conduct, and the conduct of counsel on its behalf, did not violate any state law, and that the issuance of the July 18 Order was a violation of Activision’s constitutional rights under 42 U.S.C. §1983. Dkt. 7. This Court has granted two preliminary injunctions to Activision with respect to the July 18 Order. The first injunction preliminarily enjoined the AG Defendants from enforcing the Order with respect to Activision or its counsel bringing suit for patent infringement in federal courts. *See* Dkt. 38. The second preliminarily enjoined the AG Defendants from enforcing the July 18 Order to prevent Activision or its counsel from sending patent-related correspondence. *See* Dkt. 41.

On November 7, 2013, this Court granted MPHJ’s Motion to Intervene. Dkt. 81. On November 8, MPHJ filed and served its Complaint in Intervention, which asserts counts against the AG Defendants similar to those made by Activision. Dkt. 82.

MPHJ has filed a Motion for Preliminary Injunction that seeks relief from the July 18 Order with respect to MPHJ filing lawsuits, the same as the relief granted to Activision in Dkt. 38. *See* Dkt. 81. Briefing on that Motion is ongoing.

MPHJ now brings this Motion for Preliminary Injunction seeking relief from the July 18 Order similar to that granted to Activision in Dkt. 41. In so doing, MPHJ presents the following background, evidence, and argument in support.

OVERVIEW

At the heart of this controversy is a simple truth: MPHJ's patents (invented by Mr. Klein) are valid, and they are infringed by essentially every company who uses a commonly Local Area Network that permits direct-scan-to-email, or direct-scan-to-folder features. By law, MPHJ is entitled to enforce its patents and to seek a royalty for their infringement.

If anything, the AG Defendants' issuance of the July 18 Order with respect to MPHJ's activity is even more shocking than it was with respect to Activision. As this Court has noted, from the evidence of record to date, it appears the AG Defendants issued their Order with respect to Activision without any investigation at all into Activision's activity, and without any basis whatsoever to challenge such conduct as unlawful. *See* Dkt. 41. Here, the situation with respect to MPHJ is even worse.

The Nebraska Attorney General's Office did conduct at least an initial informal investigation of MPHJ's activity. In doing so, the Office obtained affirmative evidence prior to July 18 that the conduct of MPHJ and its counsel was neither objectively baseless nor subjectively baseless. Indeed, more than that, the evidence they were provided showed the conduct of MPHJ and its counsel was an entirely lawful and proper attempt to enforce patents that are being infringed. On information and belief, the AG Defendants, since and before July 18, have obtained no evidence, nor done any appropriate analysis, to prove that the Klein Patents

are so clearly invalid, or are so clearly not infringed, that the assertion of them could be said to be objectively baseless.¹ And since and before July 18, they did nothing to obtain any evidence that MPHJ does not reasonably believe the patent to be valid and infringed. Indeed, all of the evidence in their possession demonstrates the exact opposite. The AG Defendants literally have no basis to allege, and certainly cannot prove, that MPHJ's enforcement activity was subjectively baseless.

Given their utter lack of a basis for alleging the conduct of MPHJ or its counsel was wrongful, and their possession of affirmative evidence to the contrary, any assertion by the AG Defendants of state law against MPHJ is improper and preempted, any application of federal law is circumscribed, and the unconstitutionality of the prior restraint is plain. As shown more fully below, the Court should grant to MPHJ preliminary injunctive relief similar to that granted to Activision. Dkt. 41.

BACKGROUND

The AG Defendants' July 18 Order with respect to MPHJ and its counsel is unconstitutional, lacked lawful basis, and was issued when the AG Defendants possessed affirmative evidence of the lawfulness of the accused conduct. For the Court to see this, a review of MPHJ's patents and enforcement activity is first helpful.

1. The Klein Patents

Intervenor-Plaintiff MPHJ is the owner of certain U.S. patents covering inventions by a Mr. Laurence Klein. Declaration of J. Mac. Rust ("Rust Decl.") at ¶ 3. These patents relate to

¹ Obviously, at the time of the issuance of the Cease and Desist Order on July 18 the Nebraska AG had issued the Order well before the Farney Daniels firm even submitted the documents and evidence requested by the Nebraska AG in its Civil Investigative Demand. *See* Dkt. 7-11. In fact, the Civil Investigative Demand (asking for information about Farney Daniels' patent enforcement efforts on MPHJ's behalf) was issued the same day as the Cease and Desist Order, prior to any negative findings and prior to any hearings. Dkt. 41 at p. 12.

networked scanning systems that are connected and interfaced such that they permit the seamless transmission of a scanned document image into application software running on a destination computer. A common example of a modern system that would infringe could be found in a business having a Local Area Network (or “LAN”), and a scanner and employee computers running email software such as Microsoft Outlook connected to the LAN, where a document may be scanned and transmitted via the LAN directly as an attachment into the email on an employee’s computer with the push of a button.²

Such systems are now in widespread use. But they were not at the time of invention. Indeed, the Patent Office deemed the system novel and non-obvious at the time of invention, and has awarded five patents on aspects of the invention.³ Significantly and coincidentally, that fifth patent (U.S. Patent No. 8,488,173) was issued by the Patent Office on July 18, 2013, after a review of all of the prior art cited by most of the major scanner and information technology companies in the world. *See* Rust Decl. at ¶ 5.⁴

2. Enforcement And Licensing Considerations Presented By The Klein Patents

The inventions covered by the Klein patents are now in widespread use. Rust Decl. at ¶ 7. Indeed, there are many likely infringers in Nebraska. But seeking remedy for that infringement presents challenges for the patent owner. First, because the Klein Patents cover the entire networked system, no single manufacturer of a scanner, or a server, or any employee computer, has direct or indirect liability for the infringement. Only the businesses that make, sell, have, or use the entire covered system would infringe.

² There are a number of other common infringing examples, but this one is the most common and most easily understood.

³ These are U.S. Patent Nos. 8,488,173; 7,477,410; 6,185,590; 6,771,381; and 7,986,426. *See* Dkts. 82-1 – 82-5.

⁴ The issuance of the ‘173 patent reinforces the point that MPHJ’s belief in the validity of the patents is not only correct, but certainly not subjectively baseless.

For those businesses that can be identified as likely having an infringing system, the Klein patents then present a second complication. To bring suit for infringement against such a company, the Federal Rules require, as a predicate, that a pre-suit investigation be conducted to confirm the infringement. *See* FED. R. CIV. P. 11. But because the covered networked system is internal to the business, public proof of infringement is not typically available. Rust Decl. at ¶ 23. In the case of such private infringement, however, the law does not leave a patent owner without a remedy. Instead, it permits an extra step in the pre-suit investigation process to satisfy Rule 11 in this situation.

The courts have held, and the Federal Circuit has confirmed, that in this situation, the patent owner can satisfy its Rule 11 obligation by sending a letter to the potential infringer explaining the potential infringement, and asking the recipient, if it does not infringe, to simply inform the patent owner of that fact (and to provide sufficient support if needed). *See e.g., Arrival Star, Inc. v. Descartes Sys. Group, Inc.*, 2004 U.S. Dist. LEXIS 22433, at *36 (S.D.N.Y. Nov. 5, 2004) (where potentially infringing process is not publicly available, sending letter seeking review of alleged infringer's technical documentation reasonably satisfied Rule 11). *See also Hoffmann-La Roche Inc. v. Invamed Inc.*, 213 F.3d 1359, 1363-65 (Fed. Cir. 2000) (where evidence of suspected infringement is not publicly available, patentee's inquiry to suspected infringer seeking information regarding infringement satisfies its Rule 11 obligation).

And of course, separate and apart from this Rule 11 right and obligation, the patent owner, as acknowledged by this Court, also has its First Amendment and patent law rights to simply inform likely infringers of the patents, and to offer a license.⁵

⁵ *See Globetrotter Software, Inc. v. Elan Computer Croup, Inc.*, 362 F.3d 1367, 1374 (Fed. Cir. 2004) (“A patentee that has a good faith belief that its patents are being infringed violates no protected right when it so notifies infringers.”); *see also Virtue v. Creamery Package Mfg. Co.*, 227 U.S. 8, 37-38 (1913) (“Patents would be of little value if infringers of them could not be

3. The Klein Patents Licensing Effort Followed And Was Permitted By Federal Law

With this background, it can be seen that the letters sent by MPHJ's licensing entities were simply carrying out a lawful and reasonable attempt to seek remedy for the widespread infringement of the Klein Patents. The letters sent served several lawful and permitted purposes. First, they gave notice to recipients of the patents, something MPHJ is permitted to do *See Globetrotter Software, Inc.*, 362 F.3d at 1374; *Virtue*, 227 U.S. at 37-38; *Concrete Unlimited*, 776 F.2d at 1539; *Virginia Panel Corp.*, 133 F.3d at 869.

Second, where the recipient is believed to infringe, the patent owner is not only encouraged to give notice, but is required to do so. *See* 35 U.S.C. § 287; *see also Zenith Elecs. Corp. v. Exzec, Inc.*, 182 F.3d 1340, 1353 (Fed. Cir. 1999) (noting that notification of patent rights to an accused infringer is “a perquisite to the recovery of damages” under 35 U.S.C. § 287). Further, where a recipient is believed to infringe, a patent owner has a First Amendment right to offer a license. *See, e.g., Mikohn Gaming Corp. v. Acres Gaming, Inc.*, 165 F.3d 891, 897 (Fed. Cir. 1998) (“A patentee has a right to inform a potential infringer of the existence of the patent, whereby the recipient of the information may adjust its activities, perhaps seek a license, or otherwise act to protect itself.”); *see also Motorola Solutions, Inc. v. In re Innovatio IP Ventures, LLC (In re Innovatio IP Ventures, LLC Patent Litig.)*, 921 F. Supp. 2d 903 (N.D. Ill. 2013) (finding that the patentee's letter licensing campaign was protected petitioning activity under the First Amendment and *Noerr Pennington*). Indeed, public policy favoring settlements encourages doing so. *See Red Wing Shoe Co. v. Hockerson-Halberstadt, Inc.*, 148 F.3d 1355, 1359 (Fed. Cir. 1998) (“An offer to license is more closely akin to an offer for settlement of a notified of the consequences of infringement”); *Concrete Unlimited v. Cementcraft, Inc.*, 776 F.2d 1537, 1539 (Fed. Cir. 1985) (“patent owner has the right to . . . enforce its patent, and that includes threatening alleged infringers with suit”); *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 869 (Fed. Cir. 1997) (similar).

disputed claim rather than an arms-length negotiation in anticipation of a long-term continuing business relationship. Treating such . . . letters differently would also be contrary to fair play and substantial justice by providing disincentives for the initiation of settlement negotiations.”).

Finally, where the recipient did not respond, the third letter, in particular, additionally satisfied the Rule 11 pre-suit investigation obligation under the cases cited above, such as *Arrival-Star* and *Hoffman-La Roche*. See also *SRI Int’l, Inc. v. Advanced Tech. Labs., Inc.*, 127 F.3d 1462 (Fed. Cir. 1997) (permissible to send a letter stating the recipient may be an infringer, offering a nonexclusive license, and requesting confirmation if recipient did not believe it infringed). All of these communications have been held to be protected by the First Amendment and *Noerr-Pennington* factors from state law tort claims. See *Globetrotter Software, Inc.*, 362 F.3d at 1376 (explaining that the same First Amendment policy reasons that justify the extension of *Noerr* immunity to pre-litigation conduct of a patent holder apply in the context of state-law tort claims).

4. The Accused Letters

The entire basis of the AG Defendants’ July 18 Order with respect to MPHJ is based upon three letters sent to multiple potential infringers. It will thus be helpful to the Court to briefly consider each of these letters in turn.

When the Court reads the first letter sent by a MPHJ subsidiary, it can see that the letter explains that the Klein patents relate to a particular form of networked scanning system, and that the sender believed it was likely that the recipient had a system that would be covered by the Klein patents. Exh. A. The letter then conveyed its “central message” that if the recipient did have an infringing system, a license was needed, and that the sender was willing to grant such a license. *Id.* But, importantly, the letter also conveyed that if the recipient did not have an

infringing system, no license was needed, and the sender wished only to be so informed by the recipient so it would know to discontinue contact. *Id.* This first letter was thus consistent with a lawful and appropriate licensing campaign, as it provided to the recipient, a likely infringer, proper notice of the patents and offered a license. *See, e.g., Mikohn Gaming Corp.*, 165 F.3d at 897.

The second letter was sent only to recipients who did not respond to the first letter. Exh. B. The Court can see from review of that letter that counsel simply advised the recipient that its client had sent the first letter, and asked for a response. *Id.* In that letter, too, it was stressed again to the recipient that if it did not have an infringing system, the client merely wished to be so informed so that it would know to discontinue contact. *Id.* It also made clear that if, on the other hand, the recipient did have an infringing system, a license was required. *Id.* Thus, the “central message” of the second letter was the same as that of the first letter.

The third letter was sent only to recipients who did not respond to the first letter and the second letter. Exh. C. The Court can read that third letter to see that it had, in effect, two purposes. The first purpose was much the same as that of the second letter. It explained to the recipient that neither the client, nor its counsel, had received a response from the recipient to either the first or the second letter, and requested a response. *Id.* Thus, the “central message” of this portion of the third letter was, again, that if the recipient had an infringing system, it needed to take a license, and that if it did not have an infringing system, it did not need a license, and only needed to so inform the sender so that the matter could be closed. *Id.*

But the third letter also had a second purpose. That purpose was to ensure that a later Court would conclude that MPHJ and its related licensing entity had taken thorough and reasonable steps to make a reasonable pre-suit inquiry sufficient to satisfy its Rule 11 obligation

under cases such as *Arrival-Star* and *Hoffmann*. Thus, to that end, the letter made clear to the recipient that in the absence of a response to the third letter, the sender would make the reasonable assumption of infringement, and would believe it had a basis to bring suit. *Id.* So that this would be clear to the recipient, a draft complaint was included. *Id.* That complaint contained within it the reference that the letters, particularly the third letter, served to provide the basis for suit. *Id.*

5. How Potential Infringers Were Identified

As explained *supra*, while MPHJ can, in reliance upon experts, consultants and counsel, be reasonably confident a particular company likely uses an infringing system, it does not have the ability to confirm that conclusion directly. This is because companies' networked scanning systems typically are not publicly accessible. Thus, MPHJ can only identify a likely infringer, and then ask it if it has an infringing system. MPHJ's letters operated to fit this purpose and to ensure that it had met its Rule 11 obligation prior to bringing suit to enforce its patents.

The AG Defendants have publicly criticized MPHJ's process of identifying likely infringers as "random" when at the time of their July 18 Order, they knew this to be untrue. As already explained to them in MPHJ's July 15 letter to Mr. Walklin, MPHJ and its counsel established a reasonable process of identifying infringers. The AG Defendants have made no allegation (nor likely done any investigation) to contradict MPHJ's reasonable belief that a very high percentage of companies contacted by MPHJ did in fact have an infringing system.

Contrary to baseless claims by the AG Defendants, MPHJ, together with its exclusive licensing agents, experts, and consultants, did engage in a reasonable process to identify likely infringers. MPHJ worked with its counsel and experts to determine criteria to use to identify likely infringers, as not all companies are equally likely to use an infringing system. To begin,

MPHJ and its team concluded that companies with less than twenty employees might use an infringing system, but could not reliably be said to do so in sufficient numbers to warrant an assumption of use. Rust Decl. at ¶ 9. For example, an accounting firm with twenty employees was more likely to use a networked scanning system than a restaurant with twenty employees.

MPHJ also consulted with outside experts that assisted in the process of eliminating industries that were unlikely to use infringing systems, such as small restaurants or retail establishments. *Id.* at ¶¶ 8-10; Declaration of Donald DeBlasio (“DeBlasio Decl.”) at ¶¶ 3-9. Of the 966 categories of businesses recognized by the federal government and common commercial services, MPHJ carefully and narrowly only identified 54 such business categories as being virtually certain to have infringing systems if they also had more than twenty employees. Rust Decl. at ¶ 23. In addition, as explained *infra*, although not required by law, MPHJ chose to not seek royalties from charitable and nonprofit institutions. *Id.* at ¶ 12. In working with the consultant, MPHJ thus developed a list of companies that met the following criteria: it had more than twenty employees; it was in a specific industry segment that was highly likely to use networked scanning systems; and it was not a charity or nonprofit institution. *Id.* at ¶¶ 11-12.

Using the above criteria, the consultant, in reliance upon Dun & Bradstreet information, and other commonly relied upon commercial information, identified to MPHJ a number of likely infringers in Nebraska. MPHJ then further reviewed that list to screen out charities and non-profits. *Id.* at ¶ 12; DeBlasio Decl. at ¶¶ 4-9. Of the companies remaining on the likely infringer list, only a portion have been contacted by MPHJ and its licensing agents. Rust Decl. at ¶ 13. Importantly, if MPHJ subsequently learned that any of the contacted entities did not meet the above criteria, licensing activity was immediately discontinued with respect to that entity. *Id.* Thus, contrary to the Nebraska AG’s public assertions, MPHJ had an objective and subjective

basis for its identification of letter recipients as likely infringers, and did not merely randomly target Nebraska businesses as infringers.

Thus, in sum, this case involves circumstances where a patent owner owned patents that were widely infringed and reasonably allocated licensing responsibility among different entities.⁶ Those entities then sent correspondence to companies reasonably identified as being likely infringers of the patents, to inquire as to their possible infringement, offer a license if needed, and if rebuffed, to make sufficient inquiry as to the private infringement to satisfy the pre-suit investigation obligation imposed by Rule 11. All of this was explained to, and known to the AG Defendants by July 15, prior to their July 18 Order.⁷

ARGUMENT

SECTION ONE: THE REQUESTED PRELIMINARY INJUNCTION IS WARRANTED

Without doubt, the effect of the Cease and Desist Order, and the breathtaking scope the AG Defendants assign to that Cease and Desist Order, has unconstitutionally impaired MPHJ's protected rights to enforce its U.S. patents, and to do so by the counsel of its choice. Because the patents are, by definition, a time-limited asset, and because the ongoing litigations have timing considerations in their own right, even the delay posed by the Cease and Desist Order will cause MPHJ irreparable harm if not addressed by the preliminary injunction sought by this Motion.

Given the facts presented in the Background, MPHJ presents the law below to demonstrate that the requirements for issuance of the preliminary injunction under Rule 65 are

⁶ The explanation for MPHJ's use of exclusive licensee subsidiaries is provided in more detail in SECTION TWO, *infra*.

⁷ MPHJ also sent a fourth letter to the recipients of the first letter(s) advising them of the Canon agreement, that two of MPHJ's patents had been the subject of petitions for review, and indicating that MPHJ was suspending its licensing activity pending review of those and other factors. Exh. D. In cases where a Nebraska recipient had responded to indicate it did not infringe, MPHJ sent a different letter confirming to that recipient that MPHJ was closing the licensing matter with respect to that recipient. Exh. E.

met by MPHJ in this case. Here, issuing a preliminary injunction in this case would not operate as an extreme or prejudicial remedy. Instead, the injunction would function to preserve the status quo, as it stood prior to the issuance of the AG Defendants' unfounded and overreaching Cease and Desist Order. Accordingly, such relief would be just and proper. *See N. Cheyenne Tribe v. Jackson*, 433 F.3d 1083, 1086 (8th Cir. 2006) (explaining that "virtually every circuit court to consider the question has concluded that a preliminary injunction granting temporary relief that merely maintains the status quo does not confer prevailing party status").

I. Standards For Preliminary Injunction

By this Motion, MPHJ seeks a preliminary injunction against the AG Defendants' enforcement of their July 18 Order in any way that would impede MPHJ's right to use counsel of its choice in sending patent inquiry, licensing and notice correspondence. This Court, in its Order of September 30, 2013 (Dkt. 41), granted Activision's preliminary injunction in this case with respect to the same relief requested by MPHJ with this Motion.

Whether a preliminary injunction should issue involves consideration of "(1) the probability that the movant will succeed on the merits; (2) the threat of irreparable harm to the movant should the court deny the injunction; (3) the balance between this harm and the harm that granting the injunction will cause to the other litigants; and (4) the public interest." *See* Dkt. 41. *See also Dataphase Sys. v. C L Sys.*, 640 F.2d 109, 113 (8th Cir. 1981); *Vonage Holdings, Corp. v. Neb. PSC*, 543 F. Supp. 2d 1062, 1065 (D. Neb. 2008) ("No single factor is determinative, and the motion will not be denied merely because the plaintiff cannot prove probability of success on the merits by some mathematical formula."); *WWP, Inc. v. Wounded Warriors, Inc.*, 566 F. Supp. 2d 970, 974 (D. Neb. 2008) ("The standard for issuing a preliminary or permanent injunction is essentially the same, excepting one key difference. A permanent injunction requires the moving party to show actual success on the merits, rather than the fair chance of

prevailing on the merits required for a standard preliminary injunction.”). Here, MPHJ demonstrates that it, like Activision, can satisfy the four elements required by the issuance of the requested preliminary injunction.

Like Activision, MPHJ has standing and ripeness to seek this preliminary injunction. Also, like Activision, MPHJ has a likelihood of success on the merits, irreparable harm, and can show that the balance of harm and public interest factors that favored Activision’s preliminary injunction also favor granting MPHJ’s Motion. Therefore, MPHJ respectfully requests that this Court preliminarily enjoin the enforcement of the July 18 Order in any manner that would prevent or impede the Farney Daniels firm from representing MPHJ in connection with sending patent inquiry, licensing or enforcement letters to companies based in, or having operations in, Nebraska. *See, e.g.*, Dkt. 41.

II. MPHJ Has A Likelihood Of Success In Its Suit Against The July 18 Order

The first part of the four-part test for a preliminary injunction requires that MPHJ show that it has a “likelihood of success” on the merits of the underlying case. As applied here, this means that MPHJ must demonstrate that it has a likelihood of success in securing a judgment from this Court that includes an order vacating and/or enjoining enforcement of the Cease and Desist Order to the extent it prevents Farney Daniels from representing MPHJ in connection with its patent licensing and enforcement activity. *See Vonage Holdings, Corp.*, 543 F. Supp. 2d at 1065. This Court has already found that Activision has shown a likelihood of success on the merits because the Nebraska AG has failed to provide any evidence of bad faith enforcement of the patents. Dkt. 41 at p. 14. Further, as there is no evidence of bad faith on the part of Activision, this Court found that the sending of letters was preempted by the federal government. *Id.* Finally, the Court also found that Cease and Desist Order violated Activision’s First Amendment right to the counsel of its choosing, and that the Cease and Desist Order operated as

a prior restraint on Activision's speech and association rights. *Id.* Below, MPHJ will show that it is entitled to the same preliminary injunction for the same reasons Activision received an injunction.

A. The *Noerr-Pennington* Doctrine Applies To Preempt Any Otherwise Applicable Nebraska State Law, And To Circumscribe Any Otherwise Applicable Federal Law

Under the *Noerr-Pennington* Doctrine, it is clear that patent owners have a First Amendment right to notify suspected infringers of their patent rights. *See Globetrotter Software, Inc.*, 362 F.3d at 1374. Accordingly, the letters sent by MPHJ's subsidiaries, including those sent by Farney Daniels on their behalf, have immunity from the AG Defendants' allegations, unless it is both pled and proven that the communications were made in bad faith,⁸ meaning they were both objectively and subjectively baseless.⁹ *See, e.g., Zenith Elecs. Corp.*, 182 F.3d at 1352 (patentee's statements regarding its patent rights are privileged and not actionable unless made in bad faith). Thus, it is beyond dispute that the transmission of those letters cannot be a violation of any Nebraska state law, unless, in addition to proof of all of the elements required by any

⁸ While the test for *Noerr-Pennington* is stated as requiring proof of "bad faith," and more particularly of "objectively baseless" and "subjectively baseless" activity, at the heart is the issue of whether the patent enforcement activity was a "sham" – i.e., whether it was conducted for some purpose other than attempting to enforce or license the patents. *See GP Indus. v. Eran Indus.*, 500 F.3d 1369, 1373 (Fed. Cir. 2007); *In re Innovatio IP Ventures, LLC Litigation*, 921 F. Supp. 2d 903, 921 (N.D. Ill. 2013). On the evidence of record in this case, that is plainly not true here. MPHJ's and its counsel's activity was clearly intended to, and directed at, an attempt to enforce and license patents reasonably believed to be valid and infringed.

⁹ Also, as the communications at issue were made preliminary to this lawsuit, the litigation privilege applies to bar MPHJ's liability for the statements made in the communications. Specifically, the litigation privilege has been applied to claims, like those asserted by the AG Defendants, under state unfair competition and deceptive trade practice law. *See, e.g. PSN Ill., Inc. v. Ivoclar Vivadent, Inc.*, 2005 U.S. Dist. LEXIS 21044, at *22 (N.D. Ill. Sept. 21, 2005) (holding that the manufacturer's counterclaim against the patent holder for unfair competition and deceptive trade practices failed because the manufacturer did not allege any disparaging comments by the patent holder outside of the litigation context); *Epistar Corp. v. Philips Lumileds Lighting Co., LLC*, 2008 U.S. Dist. LEXIS 79448 (N.D. Cal. Aug. 26, 2008) (holding that the patent holder's letters alleging infringement were sufficiently related to the administrative litigation to warrant protection based on the state-law litigation privilege from claims of unfair competition and tortious interference.).

particular state law, it is additionally proven that the letters were transmitted in bad faith and were material.

At the time of the Cease and Desist Order's issuance, and to date, the AG Defendants have failed to produce any evidence that the patent enforcement activity of MPHJ, its subsidiaries, or its counsel, was objectively baseless or subjectively baseless.¹⁰

1. Prior To Their July 18 Order, And Since Its Issuance, The AG Defendants Have Been Aware That MPHJ's Patent Enforcement Activities Were Not Objectively Baseless

On June 11, 2013, Gregory Walklin, an Assistant Attorney General at the Nebraska Attorney General's Office, sent Farney Daniels a letter inquiring into the activities of MPHJ. Dkt. 29-1 at p.12; Dkt. 52-10. Mr. Farney thereafter called Mr. Walklin, and explained the factors relevant to MPHJ's licensing program, including the unusual nature of MPHJ's patents (as described *supra*), and why the correspondence was necessary to satisfy MPHJ's pre-suit investigation. Dkt. 29-1 at p. 13. After several ensuing conversations, Mr. Farney provided a written response to Mr. Walklin's letter on July 15, summarizing the points that had been covered in those conversations. Dkt. 52-11. Mr. Walklin agreed to review the letter, and either close the matter, or contact Mr. Farney if he felt any more information from Mr. Farney or MPHJ was necessary.¹¹ Dkt. 29-1 at pp. 13-14. Neither MPHJ nor Mr. Farney ever received a

¹⁰ Notably, the purported communications made in bad faith must be central and essential to the patentee's infringement claims in order to find that the entire licensing campaign was objectively and subjectively baseless. *See In re Innovatio IP Ventures, LLC Litigation*, 921 F. Supp. 2d at 915-17. This is because, as many circuits have established, that a misrepresentation can be considered a sham under *Noerr-Pennington*, only if the misrepresentation is material enough to alter the outcome of the proceeding, or affects the core of the litigant's case. *Id.*

¹¹ Importantly, the content of the letter provided responses to many of the accusations presented by the AG Defendants in the media as evidence of MPHJ's bad faith patent enforcement. For example, the letter explained that MPHJ has not attempted to hide the true owner of the patents and that information is publicly available in the U.S. Patent and Trademark Office. *See* Dkt. 52-11 at p. 2 n.2 & n.3. Additionally, the letter explains the purpose of MPHJ's licensing agents, their composition, and even the purpose behind the six letter names for each entity. *Id.* The letter

communication from Mr. Walklin thereafter.¹² At no time did Mr. Walklin ever state that he had reached any conclusion that any of the activity of MPHJ or its counsel violated any Nebraska or federal law. *Id.*

Just two days after Mr. Walklin had received Mr. Farney's letter sent by Fed Ex, the very next communication received by Farney Daniels was the July 18 Civil Investigative Demand and emergency Cease and Desist Order. Plainly, the AG Defendants, before and at the Cease and Desist Order's inception, had no evidence of bad faith, either objective or subjective, regarding MPHJ's enforcement of its patents. Indeed, at the time they issued their July 18 Order, on information and belief, the only information they had regarding MPHJ's activities was the information provided by the July 15 letter to Mr. Walklin. That letter demonstrated that not only was MPHJ's patent enforcement activity neither objectively baseless nor subjectively baseless, it was instead well-grounded, lawful, and proper.

As this Court has found, the law is clear that to show that MPHJ is engaging in bad faith enforcement of its patents, the AG Defendants must first plead and prove that MPHJ's (or Farney Daniels on its behalf) enforcement efforts were "objectively baseless." *See* Dkt. 41; *GP Indus.*, 500 F.3d at 1374. To be objectively baseless, the patent must be invalid or not infringed. *Id.* at 1375. To date, the AG Defendants have failed to present any evidence that MPHJ's patents are

also explained the uniqueness of the MPHJ patents and the challenges they present to enforcement, and MPHJ's process for identifying infringers. *Id.* at pp. 3-6. The letter further explained the licensing efforts with respect to Voices of Omaha and Nebraska Hematology Oncology, and, that those matters were discontinued. *Id.* at p. 6. Mr. Farney sent a follow-up letter to Mr. Walklin on October 8, correcting a slight error in his original correspondence regarding the enforcement area of MPHJ's subsidiaries. Dkt. 52-2.

¹² Farney Daniels was first contacted by the Nebraska AG's Office regarding MPHJ in February 2013 when they received a call from Ms. Morgan Rogers of that Office. Dkt. 29-22 at p. 16. At the conclusion of the call, Ms. Rogers explained that the purpose of her call was only to confirm that MPHJ's activities were "legitimate," and that based upon their conversation, she concluded they were. *Id.* Thus, certainly nothing in this first informal inquiry led the Nebraska AG's Office to conclude there was anything improper with respect to MPHJ's conduct, or that an emergency order was necessary.

either invalid or not infringed. On information and belief, prior to July 18, the AG Defendants had conducted no reasonable investigation as to validity or infringement, and have not done so since. Thus, MPHJ's patent enforcement efforts cannot be deemed "objectively baseless," and the AG Defendants have no evidence to support such a claim.

a. MPHJ's Patents Objectively Are Valid And The AG Defendants Did No Analysis And Have No Evidence To Conclude To The Contrary

It is well-settled that patents are presumed valid. *See* 35 U.S.C. § 282. Because a patent is presumed valid, the evidentiary burden to show facts supporting a conclusion of invalidity rests on the party seeking to prove invalidity. *Takeda Chem. Indus. v. Alphapharm Pty., Ltd.*, 492 F.3d 1350, 1355 (Fed. Cir. 2007). This burden is one of clear and convincing evidence. *Id.* Here, the AG Defendants have failed to present any evidence, let alone clear and convincing evidence, that MPHJ's patents are invalid. Thus, that MPHJ was enforcing patents that were valid cannot be deemed "objectively baseless."

b. MPHJ's Patents Objectively Are Infringed And The AG Defendants Did No Analysis And Have No Evidence To Conclude To The Contrary

As stated *supra*, MPHJ has the right, under the patent laws, to inform a potential infringer of the existence of its patent. *See GP Indus.*, 500 F.3d at 1374; *Va. Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 869 (Fed. Cir. 1997) ("[A] patentee must be allowed to make its rights known to a potential infringer so that the latter can determine whether to cease its allegedly infringing activities, negotiate a license if one is offered, or decide to run the risk of liability and/or the imposition of an injunction."). Indeed, a patent owner, acting in good faith on its belief as to the nature and scope of its rights, is fully permitted to assert those rights against infringers, even though he may ultimately be incorrect as to a party's infringement. *See Mikohn Gaming*, 165 F.3d at 897 ("federal authority makes clear that it is not improper for a patent owner to advise

possible infringers of its belief that a particular product may infringe the patent.”). Thus, all that is required is a good faith belief that the letter recipient is infringing the patent – even if the ultimate result is that the patent is not infringed.

Here, like the patentee in *Mikohn*, MPHJ and its subsidiaries sent correspondence to alleged infringers that they objectively and in good faith believed were infringing MPHJ’s patents. Importantly, any recipient who received a letter that did not infringe, who contacted MPHJ or its subsidiaries to inform them of that fact, was immediately removed from the list of targeted infringers and all communications with that entity promptly ceased.¹³ Thus, MPHJ and its subsidiaries only communicated with entities they believed, in good faith, infringed MPHJ’s patents. And, as stated *supra*, the fact that the patents are unique, in that there is widespread infringement, does not alter the conclusion that MPHJ and its subsidiaries have enforced the MPHJ patents in good faith. The AG Defendants have done no investigation and have no evidence to indicate that MPHJ’s patent enforcement efforts were objectively baseless, or that it actively knowingly pursued non-infringers in bad faith.

2. MPHJ’s Patent Enforcement Efforts Were Not Subjectively Baseless And The AG Defendants Could Not Have Reasonably Concluded To The Contrary

Absent a showing of objective baselessness, it is unnecessary to reach the question of the patentee’s intent. *800 Adept, Inc. v. Murex Sec., Ltd.*, 539 F.3d 1354, 1370 (Fed. Cir. 2008); *GP Indus.*, 500 F.3d at 1374. In any event, MPHJ’s patent enforcement efforts cannot be considered “subjectively baseless” either, and the AG Defendants likewise fail to present any evidence to the contrary. *See id.* (“Subjective considerations of bad faith are irrelevant if the assertions are not objectively baseless.”). As explained *supra*, MPHJ’s correspondence was a reasonable effort to satisfy the pre-suit investigation requirements of Rule 11. *See e.g., Arrival Star, Inc.*, 2004

¹³ *See* SECTION TWO, *infra*.

U.S. Dist. LEXIS 22433 at *36; *Hoffmann-La Roche Inc.*, 213 F.3d at 1363-65. As repeatedly explained, MPHJ and its subsidiaries only sent correspondence to entities that they believed infringed the MPHJ patents. The AG Defendants have failed to provide evidence that MPHJ's subjective belief was baseless, and could not provide such evidence.

3. Specific Complaints About MPHJ's Patent Enforcement Efforts Do Not Support Any Conclusion Of Objective Baselessness Or Subjective Baselessness

There have been a number of mischaracterizations of the MPHJ patents, and MPHJ's enforcement of those patents through correspondence. Specifically, the Nebraska Attorney General, apparently for political purposes, has challenged a number of statements contained within the letters. In SECTION TWO, MPHJ addresses each such accusation it can identify and shows it to be meritless on the facts, the law, or both. But each is additionally simply immaterial. As an initial matter, the accused communications purportedly made in "bad faith" must be central to the patentee's infringement claims in order to find that the entire licensing campaign was objective and subjectively baseless. *See In re Innovatio IP Ventures, LLC Patent Litig.*, 921 F. Supp. 2d at 921-22. This is because, as many circuits have established, a misrepresentation can be considered a "sham" under *Noerr-Pennington* only if the misrepresentation is material enough to alter the outcome of the proceeding, or affects the core of the litigant's case. *Id.* (and cases cited). Each of the accusations that MPHJ can identify as being made, or that may possibly be made by the AG Defendants, fell into this "immaterial" category, and, in addition, on their underlying premise, are simply wrong on the facts, wrong on the law, or both. *See* SECTION TWO, *infra*.

Here, a reasonable recipient would understand the letters to convey the following central message: (1) we believe you may infringe; (2) if you are infringing, you need a license; (3) if you are not, you do not need a license (and need only to so inform us); and (4) that if you do not

respond, we believe we have made sufficient inquiry to permit our bringing suit. *See* Exhs. A, B, C. Such a message could scarcely be construed as bad faith enforcement of MPHJ’s patents.¹⁴ For completeness purposes, MPHJ demonstrates in SECTION TWO of its Memorandum that each of the peripheral statements contained within its letters were also not made in bad faith. MPHJ likewise addresses the other mischaracterizations it can identify that have been made regarding its licensing activities in SECTION TWO, *infra*.

B. Not Only Are MPHJ’s Patent Enforcement Efforts Preempted By Federal Law, But MPHJ’s Patent Inquiry And Licensing Correspondence Did Not Violate Any Nebraska Law

In their Civil Investigative Demand and Cease and Desist Order issued on July 18, the AG Defendants alleged possible violations of NEB. REV. STAT. §§ 59-1602, 87-302, and 87-303.01, sections of the Nebraska Consumer Protection Statute. Defendant Bruning has also made public statements that his office is reviewing whether MPHJ’s patent enforcement efforts violated NEB. REV. STAT. § 28-1355, the Nebraska RICO statute. Applications of each of these laws is preempted as explained above. But additionally, none of these laws even apply to patent enforcement activity, as shown below.

1. Nebraska Unfair Competition And Deceptive Trade Practices Law Does Not Apply

As an initial matter, the AG Defendants cannot demonstrate that the MPHJ correspondence constitutes “trade or commerce” within the meaning of Nebraska’s Consumer Protection laws. Dkt. 22 at p. 24. Those terms are defined under the Nebraska Consumer Protection statute as “the sale of assets or services and any commerce directly or indirectly

¹⁴ Thoughtful consideration would reveal that here there can only be two types of recipients – those that infringe, and those that do not. For infringing recipients, surely the AG Defendants cannot claim they should be exempt from liability. For those recipients who do not infringe, the letters are clear that MPHJ had no intention of seeking a royalty from them and need only notify MPHJ.

affecting the people of the State of Nebraska.” NEB. REV. STAT. § 59-1601(2) (emphasis added). It is clear that MPHJ’s patent enforcement efforts do not meet the definition of “trade or commerce” under the statute, as there is no “sale of assets or services” by MPHJ – merely enforcement of its property rights against infringers of those rights.¹⁵

Further, the UDTPA does not apply to the practices here because that law only applies to “unconscionable practices” in a contract context. See *Parizek v. Roncalli Catholic High Sch.*, 11 Neb. App. 482, 286 (2002); NEB. REV. STAT. § 87-303.01(1) (“An unconscionable act or practice *by a supplier* in connection with a consumer transaction shall be a violation of the Uniform Deceptive Trade Practices Act.”) (emphasis added). Clearly, neither MPHJ nor Farney Daniels can be considered “suppliers” to a “consumer transaction,” and neither have entered into any “contracts” with any of the businesses who received letters.¹⁶ Accordingly, the Nebraska Consumer Protection statutes do not apply to MPHJ’s patent enforcement efforts, independent of the fact that they are preempted.¹⁷

2. Nebraska’s RICO Statute Is Preempted And Inapplicable

Defendant Bruning has made public statements asserting that his office is reviewing whether MPHJ (or Farney Daniels’ activities on its behalf), violated the Nebraska RICO statute, presumably NEB. REV. STAT. § 28-1355. Application of that law is preempted for the same

¹⁵ Additionally, the accuracy and reasonableness of the communications related to MPHJ’s patent enforcement efforts were such that they could not be considered “deceptive” or “unfair” within the meaning of those respective laws.

¹⁶ Among other considerations, a licensing agreement is not considered a “contract in connection with a consumer transaction,” because there is no sale of goods or services. Rather, such an agreement is considered a settlement regarding the recipient’s infringement, inclusive of a covenant not to sue for such infringement in the future. See, e.g., *Howes v. Howes*, 436 So. 2d 689, 692 (La.App. 4 Cir. 1983) (noting that a contract for a sale of a patent is distinguishable to a contract to license its use).

¹⁷ Further, as explained *supra*, the letters sent by Farney Daniels on MPHJ’s behalf cannot be considered “unfair” or “deceptive,” because the statements contained within the letters were objectively and subjectively accurate.

reasons set forth above. *See In re Innovatio IP Ventures, LLC Patent Litig.*, 921 F. Supp. 2d at 912 (explaining that *Globetrotter's* bad faith standard applies to claims of protection under the First Amendment's right to petition and the *Noerr-Pennington* doctrine). In the *Innovatio* case, the patentee's pre-suit communications were shielded from the Federal RICO claim. *See id.* (“[B]ecause *Globetrotter's* reasoning depends on the First Amendment, and not only on preemption law, it is equally applicable to federal claims like the RICO claim [] brought here.”). The same holding applies here. Further, the Nebraska RICO law is also inapplicable because the terms of the statute simply do not apply to MPHJ's patent enforcement activities.

C. MPHJ Has Standing And Ripeness To Bring Its Claims

The AG Defendants may also again raise “standing” and “ripeness.” But, like Activision, MPHJ has standing and ripeness to bring its claims against the AG Defendants. Any argument by the AG Defendants that MPHJ lacks standing and ripeness has been rejected by this Court. *See* Dkts. 41 & 81. Indeed, for intervention, MPHJ's standing was resolved by this Court in MPHJ's favor. *See* Dkt. 81 at p. 6; Dkt. 75 at pp. 17-18. It is clear that, like Activision, MPHJ has suffered an injury in fact and Farney Daniels cannot pursue patent infringement cases or investigations on MPHJ's behalf. “There is no doubt that this injury is causally related to the cease and desist order and such injury is directed at [MPHJ's] activities via counsel.” Dkt. 41 at p. 6. Further, this case is ripe because, like Activision, MPHJ has “suffered an injury, and continues to suffer injury, as a result of the cease and desist order. Failure to address this issue now will permit continued injury to [MPHJ].” *Id.* at p. 7. Accordingly, MPHJ has standing and ripeness to bring its claims.

III. The Remaining Three Requirements For Securing A Preliminary Injunction Are Met

This Court, in its September 30 Order awarding Activision the preliminary injunction sought by MPHJ here, found that the same Cease and Desist Order violated Activision's constitutional rights and constituted a prior restraint. Dkt. 41. In granting the preliminary injunction, this Court found that Activision had shown, in addition to likelihood of success on the merits for its claim, that it would suffer irreparable harm if the injunction was not issued, and also that the balance of hardship and the public interests factors weighed in its favor. *Id.* For at least the same reasons, MPHJ asserts that these factors likewise weigh in its favor in support of the preliminary injunction sought here.

A. MPHJ Has Suffered Irreparable Harm, And Continues To Suffer Such Harm, As A Result Of The Unconstitutional Cease And Desist Order

This Court, in its September 30 Order, held, based upon the same Cease and Desist Order, that “[i]t is clear in this case that injury has occurred and will continue to occur under the cease and desist order.” Dkt. 41 at p. 15. Like with respect to Activision, MPHJ's First Amendment rights are being violated, and the AG Defendants have no right to maintain the Cease and Desist Order given the preemption in this area of the law. *Id.* Because of the unconstitutional Cease and Desist Order, MPHJ's, like Activision's, constitutional rights have been violated, including its ability to enforce its patents and choose its counsel to assist it in doing so. MPHJ is prepared to move forward with its patent enforcement efforts, but cannot do so because of the Cease and Desist Order. Accordingly, MPHJ has suffered, and will continue to suffer irreparable harm if this Court does not enjoin enforcement of that Order.

In their response, the AG Defendants have noted that MPHJ's counsel indicated in the July 15 letter to Mr. Walklin that MPHJ did not have “any present intention of resuming its licensing activity in Nebraska pending further review.” Dkt. 70 at p. 4. They have cited that as a

basis that MPHJ cannot show harm. But that statement plainly included the qualifier “pending further review,” review which MPHJ has now done. It included, among other things, receiving confirmation via the issuance by the Patent Office of the ‘173 Patent that the prior art cited in petition for review in connection with only two other Klein patents do not establish a case for invalidity with respect to the Klein invention, as well as infringement analyses with respect to larger infringing companies. In short, the statement cannot serve as a basis to prove MPHJ does not suffer irreparable harm from the unconstitutional prior restraint imposed by the July 18 Order.

B. The Balance Of Hardships Factor Weighs In Favor Of MPHJ

As indicated above, the AG Defendants have no evidence that MPHJ has enforced its patents in bad faith, and thus, preemption applies here. Therefore, as this Court indicated in its September 30 Order, although the AG Defendants have a right to protect their citizens from unfair trade practices, no such violation has occurred here. Dkt. 41 at p. 15. Further, like Activision, MPHJ has the constitutional right to hire the counsel of its choosing to pursue investigations and lawsuits against infringers, and that right “is clearly impeded by the cease and desist order.” *Id.* Because this activity is preempted, this Court held that “[a]llowing the attorney general to interfere might be harmful to the patent process.” *Id.* The same analysis applies here, and, therefore, this factor weighs in favor of MPHJ as well.

C. The Public Interest Factor Weighs In Favor Of MPHJ

Finally, as this Court noted in its September 30 Order, “[t]he public interest is served by enforcing the Constitution of the United States. This means that Activision and others have a right to counsel and a right to have counsel pursue their interests. It also means that Activision and others have a due process right to meaningful process prior to issuance of a cease and desist order.” *Id.* MPHJ, like Activision has these same rights. And MPHJ, like Activision, was

afforded no sort of hearing or due process prior to the issuance of the unconstitutional Cease and Desist Order. Further, the issuance of that unconstitutional Order with respect to MPHJ is even more egregious, as MPHJ had provided the AG Defendants with an abundance of evidence regarding its good faith patent enforcement efforts. The AG Defendants ignored all the evidence presented to them by MPHJ and Farney Daniels, and chose to issue their unconstitutional Cease and Desist Order in the face of that evidence, and without any further investigation or basis.

Clearly, the public interest factor undoubtedly weighs in favor of MPHJ.

SECTION TWO: IDENTIFIABLE SPECIFIC ACCUSATIONS DO NOT SUPPORT A FINDING OF OBJECTIVE BASELESSNESS NOR SUBJECTIVE BASELESSNESS

The AG Defendants here never cited any particular basis for their issuance of the July 18 Order as it related to MPHJ and its counsel. However, in their Opposition to Activision's Motion for Preliminary Injunction, the AG Defendants did contend that MPHJ's, or its counsel's, conduct was improper on several grounds. *See* Dkt. 22, *passim*. The AG Defendants have also made reference to the suit filed against MPHJ by the Vermont Attorney General. And, Defendant Bruning has made multiple public statements regarding MPHJ.

MPHJ in this separate section of this Memorandum takes up each of the specific accusations it can identify and demonstrates to the Court that they are immaterial as a matter of law, are neither objectively baseless nor subjectively baseless, and are wrong on the facts, wrong on the law, or both.

I. Any Particular Accused Statement Or Conduct Is Constitutionally Protected Unless It Is "Objectively Baseless," "Subjectively Baseless" And Sufficiently Material To Alter The Outcome Of The Underlying Case Or Affect The Core Of The Patent Infringement Case

As noted *supra*, for specific statements made in connection with patent enforcement activity to serve as a basis for finding "bad faith," the statement must be objectively baseless and

subjectively baseless and also must be central to the patentee's infringement assertion (or, here, infringement "inquiry") and licensing purpose of the letters. *See In re Innovatio IP Ventures, LLC Litigation*, 921 F. Supp. 2d at 915-17. This is because, as many circuits have established, that a misrepresentation can be considered a sham under *Noerr-Pennington*, only if the misrepresentation is material enough to alter the outcome of the proceeding, or affects the core of the litigant's case. *Id.* Each of the complaints MPHJ has heard fall into this category, and further are simply wrong on the facts or on the law.

II. Identifiable Potentially Accused Statements Or Conduct Are Not Only Immaterial, But Wrong On The Facts, The Law, Or Both

A. The Allegations That The AG Defendants Appear To Have Made

1. Allegation: That Letters Were Sent When No Court Has Ruled On The Validity Of The Patents

The AG Defendants have cited favorably to the suit filed by the Vermont Attorney General. *See, e.g.*, Dkt. 22 at pp. 2, 29 & Dkt. 70 at p. 2. Among the frivolous allegations in that complaint, is that it is somehow deceptive to send a patent notice or inquiry letter when no court has yet ruled on the validity of the patents. Plainly this is not the law. By statute, patents issued by the U.S. Patent Office are presumed valid. 35 U.S.C. § 282(a). Plainly this allegation cannot serve as a basis for finding "bad faith" to avoid preemption. Indeed, an argument to the contrary would not satisfy the requirements of FED. R. CIV. P. 11.

2. Allegation: Some Businesses Only Received A Third Letter And Not The First Or Second Letters

The AG Defendants have made at least some allegations that the second and third letters that were sent were improper because the preceding letter(s) were not sent. As an initial matter, such an allegation even if true would not be material under *Innovatio*. Further, simply reading the second and third letters demonstrates that MPHJ and its counsel believed the prior letter(s)

had been sent. *See* Exhs. B & C. As shown by the declaration of the consultant who assisted MPHJ and its counsel with the relevant mailings, that consultant, Mr. Donald DeBlasio, expressly informed MPHJ and its counsel that the letters had been sent. DeBlasio Decl. at ¶ 10. Indeed, if necessary, he has independent documentation that would support the conclusion the letters were sent. Further, Mr. DeBlasio, in consultation with MPHJ and its counsel, took affirmative steps to ensure recipients received the letters. *Id.* at ¶¶ 9-10. MPHJ, or its subsidiaries, or its counsel, were typically included as a nominal recipient, so that they could confirm receipt of the letter when mailed. *Id.* As Mr. DeBlasio and Mr. Rust confirm, to the best of their knowledge, the test letters were always received. *Id.*; Rust Decl. at ¶ 14.

Moreover, in the instances where a recipient of a second or third letter contacted MPHJ or its counsel to indicate they did not have the prior letter(s), copies were promptly sent to them. *Id.* at ¶ 15. Many of such recipients admitted that they had likely simply thrown away the prior letter(s). *Id.* Additionally, to eliminate any concern over this issue, MPHJ's counsel, in later mailings, simply included copies of the prior letters. *Id.* at ¶ 16.

In short, this allegation is both factually wrong, and immaterial under *Innovatio*.

3. Allegation: MPHJ Performed Little, If Any, Due Diligence To Confirm That The Letter Recipient Likely Infringed

The AG Defendants appear to be likely to allege that MPHJ and its counsel did not perform an adequate pre-suit investigation. To the contrary, MPHJ and its counsel, as noted previously, carefully identified the size of business, and the type of business, that would likely have a Local Area Network with the features and components required to infringe. DeBlasio Decl. at ¶¶ 2-9. Only companies understood to satisfy these criteria were contacted. *Id.* at ¶¶ 8-10. In addition, none of those companies were accused of infringement. Rust Decl. at ¶ 17. Instead, they were asked if they infringed. *Id.* The letters provided simple checklists by which

parties who clearly did not infringe could easily identify themselves (i.e., a company who did not have a scanner, or who did not have a LAN). *See* Exh. A. Moreover, the patents were identified, and it was made clear to the recipient that the legal scope of the infringement question was defined by the claims. *Id.*

Further, MPHJ's counsel had conducted a thorough analysis of the patents, the patent claims, the file histories, and the prior art, to reach a conclusion as to the proper construction of the patent claims.¹⁸ Rust Decl. at ¶ 6. MPHJ's counsel had reviewed multiple common LAN configurations and concluded that all, or essentially all, typical configurations would infringe at least one claim of the Klein Patents. *Id.* at ¶ 7. Any suggestion that MPHJ or its counsel did not adequately review the patents, or the potential invalidity and infringement issues, or the reasonable criteria for identifying potential infringers, is simply false and without any basis.

4. Allegation: MPHJ Lacked Evidence That The Targeted Businesses Were Actually Infringing Its Patents Prior To Sending The Letters

The AG Defendants have alleged that the letters were improper because they were sent without MPHJ or its counsel having evidence, prior to sending the letter(s), that the recipient actually infringed. Such an allegation mistakenly or willfully disregards the lawful purpose of the letter(s). As explained previously, MPHJ and its counsel could reasonably believe that a recipient satisfying certain criteria regarding company size and type of business would have a LAN that would infringe. Because the details of that LAN would not publicly be available, it was lawful and appropriate to send the recipient a letter inquiring as to potential infringement, as explained previously. *See Arrival Star, Inc.*, 2004 U.S. Dist. LEXIS 22433 at *36; *Hoffmann-La Roche Inc.*, 213 F.3d at 1363-65. Thus, an accusation that the letter(s) were sent to the recipient

¹⁸ This claim construction step, which the Federal Circuit has held as necessary to reach any conclusion regarding, and to make any assertion regarding, validity and infringement, has, on information and belief, never been conducted by the AG Defendants. It certainly was not conducted before the issuance of their July 18 Order.

without direct evidence that the recipient infringed is accurate, but entirely misses the lawful purpose of the letter(s) – which was to inquire as to the reasonably suspected infringement of the recipient.

5. Allegation: MPHJ Or Its Counsel Improperly Accused Recipients Of Infringing Without Evidence

Another mischaracterization of the letters that appears to be asserted by the AG Defendants is that the letters accused the recipient of infringing. This is simply false. The Court need only read the letters to see that each letter inquired regarding potential infringement. *See* Exhs. A, B & C. The letters did state that MPHJ and its counsel believed it was likely the recipient infringed, but in context made it clear that this was a “belief” and not an accusation based upon evidence. Even the third letter, which included an attached draft complaint, made it clear that the complaint was based upon the “assumption” that the recipient infringed based upon the recipient’s refusal to respond to the inquiry letter(s). Exh. C. Even in that third letter, the recipient was not directly accused of infringement. *Id.* Thus, this allegation is both factually incorrect, and immaterial.

6. Allegation: MPHJ Sent Letters Nationwide

The AG Defendants have indicated they may claim there was something wrongful in sending the accused letters to Nebraska companies because similar letters were sent to companies outside of Nebraska. As an initial matter, it cannot be relevant to whether any Nebraska law was violated based on letters sent outside of Nebraska. Further, because the letters were lawful, as explained elsewhere, sending lawful letters outside of Nebraska would similarly be irrelevant. Thus this allegation is both legally irrelevant and immaterial.

Of course, as explained *supra*, MPHJ’s patents are widely infringed. And, under the patents laws, every infringer is liable for infringement, not any particular small number. Further,

the fact that there may be a large number of infringers does not alter a particular letter recipient's infringement or MPHJ's ability to be compensated for that infringement. Recently, a District Court in the Eastern District of Louisiana agreed that the number of letters sent by MPHJ is irrelevant to its ability to recover for infringement of its patents – and cannot even serve as a basis for exercising personal jurisdiction over MPHJ in those recipients' states. *See Eng'g & Insp. Servs., LLC v. IntPar, LLC, et. al.*, 2013 U.S. Dist. LEXIS 146849, at *17 (E.D. La. Oct. 9, 2013). Thus, the fact that MPHJ's patents are widely infringed, cannot be a basis to assert that it has enforced its patents in bad faith.

7. Allegation: MPHJ Improperly Sent Letters To Small Businesses And Non-Profits

The AG Defendants have indicated that they contend something was unlawful about MPHJ's sending patent inquiry letters to smaller companies, and unintentionally to a few non-profits. But, this cannot be the basis for alleging wrongful conduct. Plainly there is no immunity in the patent laws based upon company size or non-profit status. *See, e.g., Madey v. Duke Univ.*, 307 F.3d 1351, 1362 (Fed. Cir. 2002) (“[In determining infringement], the profit or non-profit status of the user is not determinative”); *Byrne v. BBC*, 132 F. Supp. 2d 229, 234 (S.D.N.Y. 2001) (in a copyright infringement case, explaining that “[t]he question . . . is the purpose and character of the use, not of the alleged infringer”).

Moreover, here, where MPHJ could not assert the patents against the manufacturer, its only reasonable recourse was to seek remedy for the infringement from the end user. Given that these end users did infringe the patents, it cannot have been unlawful for MPHJ to send them a letter inquiring regarding their potential infringement, and to offer a license if they do infringe.¹⁹

¹⁹ *See Arrival Star, Inc.*, 2004 U.S. Dist. LEXIS 22433 at *36; *Hoffmann-La Roche Inc.*, 213 F.3d at 1363-65; *Globetrotter Software, Inc.*, 362 F.3d at 1374; *Mikohn Gaming Corp.*, 165 F.3d at 897.

That some of these recipients may not have had familiarity with patent law simply is not a defense recognized in the patent laws, or a basis to contend that MPHJ's proper inquiry regarding the potential infringement of its patents was unlawful.

Furthermore, as Mr. Rust explains, MPHJ did choose to not contact non-profits and took efforts to screen such companies from receiving the letter. Rust Decl. at ¶ 12. Where a non-profit entity was sent a letter, and then identified itself, any further licensing discussions with that entity was discontinued. *Id.* at ¶ 13; Dkt. 52-11 at p. 5. This was true for the example frequently cited by the AG Defendants, Voices of Omaha, as explained in more detail *infra*.

Put simply, there is no immunity under the patent laws based upon size and non-profit status, and any allegation to the contrary are wrong on the law and legally immaterial.

8. Allegation: MPHJ Acted Improperly In How It Identified That Recipients Could Establish Noninfringement

It has also been alleged that MPHJ improperly placed an investigation burden on the small businesses. However, in its first letter, MPHJ provided simple checklists by which almost any company that did not infringe could easily make that determination. Exh. A. Thus, if a company did not have a scanner, or did not have a LAN, it could easily see that it did not satisfy the provided checklist and so inform MPHJ. When companies did so, MPHJ discontinued any licensing effort. Rust Decl. at ¶ 13. This was true for the example that has been frequently cited by the AG Defendants, Nebraska Hematology Oncology. That company contacted MPHJ and informed them it did not have a scanner connected to a network, and further licensing efforts with that company were discontinued, as explained in more detail *infra*. *Id.* at ¶ 27.

The AG Defendants have also complained that in the first letter, MPHJ identified information it would likely request if a recipient claimed not to infringe. While the letter may have been more clear on this point, that reference only sought more information related to

companies who otherwise satisfied the simple checklist, but still claimed to not infringe. In MPHJ's experience, all of the few companies who identified themselves as not infringing did so by reference to the checklist, and in no instance were they asked to provide any documentation. *Id.* at ¶ 18.

Even if they had been asked for documentation to establish their claim of noninfringement, the law is clear that a reasonable amount of documentation to support such a bald claim can reasonably be requested by the patent owner. *See e.g., Arrival Star, Inc.*, 2004 U.S. Dist. LEXIS 22433 at *36 (where potentially infringing process is not publicly available, sending letter inquiry seeking review of alleged infringer's technical documentation reasonably satisfied Rule 11).

In short, MPHJ had the right to request documentation to support any response by a recipient that it did not infringe, and both in the letter and in practice, provided a very simple process by which essentially any company that did not infringe could easily identify that noninfringement and so inform MPHJ. Nothing in MPHJ's conduct in this regard was wrong as a matter of law, and it was certainly immaterial.

9. Allegation: MPHJ Acted Improperly In Suggesting To The Recipient That It Should Retain Patent Counsel

Remarkably, the AG Defendants have suggested that MPHJ somehow acted improperly in suggesting to recipients that they might want to secure patent counsel. It simply cannot be the law that it can be deceptive to send someone a patent inquiry or licensing letter and suggest to that recipient that they should seek legal counsel. This allegation is both legally wrong, and certainly immaterial.²⁰

²⁰ Further, it has been asserted that because retaining patent counsel may cost a lot of money and exceed the cost of licenses, MPHJ has asserted its patents in bad faith. Clearly MPHJ has no control over the rates of patent counsel and cannot be said to assert its patents in bad faith merely

10. Allegation: MPHJ Used Shell Corporations To Hide The True Owners Of The Patents, Avoid Liability, And Encourage Quick Settlements

The AG Defendants have made much of the fact that MPHJ chose to license its patents using a set of licensing subsidiaries. While these have been referred to as “shell corporations” they were each exclusive licensees in certain defined fields and owned those respective licensing rights. Rust Decl. at ¶ 20; Dkt. 52-11 at p. 2. They were established, as Mr. Rust explains, with the purpose of better organizing what MPHJ expected to be a large licensing effort. Rust Decl. at ¶ 20; Dkt. 52-11 at p. 2. As was explained to the AG Defendants in the July 15 letter, the licensing entities were named using a naming convention from which the potential infringers that each licensing entity had a right to license could be identified.²¹ Dkt. 52-11 at p. 2. Thus one part of the naming convention identified the relevant business category, and the second part of the naming convention identified a subgroup within that business category.²² Dkt. 52-11 at p. 2.

Among the allegations that have been made regarding these licensing subsidiaries is that they somehow serve to “hide the true owner” of the patents. Of course, the first problem with this allegation is that no one could reasonably identify why the “true owner” should matter to the

because an infringer may have to retain counsel. The same could be said for any other type of lawsuit in which the defendant must pay to retain counsel on its behalf. Likewise, the fact that a patent infringement lawsuit may be costly cannot be a reason that MPHJ enforces its patents in bad faith.

²¹ Further, the letters provided the U.S. Patent numbers for the Klein Patents, and the first letter made it clear that sender of the letter was “the licensing agent” for the Klein Patents. Exh. A. Accordingly, any recipient of the letter could easily enter the Klein Patent number in the USPTO website, and within seconds, know that the owner of the Klein Patents is MPHJ. Thus, any assertion that MPHJ used its licensing entities to hide the true owner is simply false and nonsense.

²² MPHJ and its licensing subsidiaries originally intended these subgroups to be identified by Zip Code, but later concluded that they would instead identify them by Assigned Codes. In the July 15 letter, the explanation of the naming convention incorrectly referred to Zip Codes, but this error was corrected by letter to Mr. Walklin of October 18. Dkt. 52-12.

recipient, and whether it infringed. Thus any allegation that use of the entities somehow would encourage a “quick settlement” is, logically, simply nonsense.²³

But more to the point, any allegation that the “true owner” was “hidden” by use of the licensing subsidiaries is flatly contradicted by the fact that the publicly available U.S. PTO Website always was available to identify each of the patents as being owned by their “true owner” – MPHJ. Rust Decl. at ¶ 4. In short, the entities simply cannot logically have been used in hiding the “true owner” when that “true owner” was always identifiable from public records. This same fact also refutes frivolous allegations that the licensing subsidiaries were somehow used to shield MPHJ from any supposed liability.

Also, there have been allegations that the licensing subsidiaries contacted companies for which they did not have exclusive licensing rights. This was simply incorrect, and appears to have been based on confusion related to how the rights to license a certain business group were subdivided among various licensing entities. *Id.* at ¶ 20.

In short, MPHJ’s use of the licensing subsidiaries to organize its licensing campaign may have been unusual, but any argument that it had some nefarious purpose is simply contradicted by the facts. Additionally, of course, it is legally immaterial.

11. Allegation: That MPHJ Did Not Provide Information Sufficient For The Recipient To Understand A Potential License And Gave Insufficient Information On How To Locate The Patents For Review

It has been alleged that MPHJ’s letters did not provide sufficient information for a recipient to assess infringement, nor gave it sufficient information on how to obtain the patents. On this latter point, a federal court has already found to the contrary. In *Eng’g & Insp. Servs.*,

²³ There have also been complaints that MPHJ’s use of a law firm, Farney Daniels, to send patent enforcement letters on its behalf, constitutes bad faith enforcement of patent rights. Of course, it is clear that MPHJ has a constitutional right to choice of counsel, and may employ the Farney Daniels law firm to represent it in its patent enforcement efforts – as is customary. *See, e.g.*, Dkt. 41.

LLC v. IntPar, LLC, et. al., 2013 U.S. Dist. LEXIS 146849 (E.D. La. Oct. 9, 2013), the district court found that MPHJ's reference to Google Patents as a source to locate the patents was legally sufficient. Moreover, as explained above, MPHJ did provide checklists from which virtually any recipient who might not infringe could identify that noninfringement easily.

Finally, there is no legal requirement in the patent laws that a patent owner give any detail in a patent inquiry enforcement letter beyond identifying the patents. As a result, this allegation is both legally flawed, and factually incorrect. It is also immaterial.

12. Allegation: Letters Demand That Recipients Contact Farney Daniels Or MPHJ Within Three Weeks Of The Date Of The Letters Or Two Weeks Within The Date Of Letters (Short Deadlines)

The AG Defendants have also complained that the letters gave the recipients only a few weeks to respond. However, these time periods cannot be said to be unreasonable. Further, any recipient could have contacted MPHJ or its counsel and asked for additional time if it needed. In the few cases where recipients did so, MPHJ consistently gave that party additional time to review the matter. Rust Decl. at ¶ 19.

In short, there is certainly no legal requirement for how long one must give a potential infringer to respond to a patent inquiry or licensing letter, and as a matter of fact, several weeks is not unreasonable. Finally, of course, these deadlines for response are not legally material.

13. Allegation: That It Was Improper For MPHJ To Allege There Had Been A "Positive Response" To The Licensing Program

The AG Defendants have argued that MPHJ's statement that "we have had a positive response from the business community to our licensing program," was false and improper. However, the evidence demonstrates the contrary. This statement was only made by MPHJ in its initial letters to recipients, and was based upon the experience of the prior owner of the patents, Project Paperless, LLC, who had engaged in a similar licensing effort. Declaration of Steven G.

Hill (“Hill Decl.”) at ¶¶ 1, 3. Project Paperless did not initially claim in its letters to have received a “positive response,” but after engaging in negotiations with multiple infringing recipients, and obtaining licenses from those recipients, Project Paperless added this statement to its letters. Hill Decl. at ¶¶ 16-18. The basis for this statement is explained by counsel for Project Paperless at the time, Mr. Hill. Hill Decl. at ¶¶ 16-18.

As Mr. Hill explains, he also communicated that there had been a positive response to the Klein Patents to MPHJ. Hill Decl. at ¶ 18. Thus, when MPHJ made this statement in its initial letters, the statement was both true, and, importantly, was believed by MPHJ to be true. Rust Decl. at ¶ 24. It took some time before MPHJ began to receive sufficient responses from its own letters to determine that recipients were more resistant to taking a license than had been expected. Rust Decl. at ¶ 25. Once that became clear to MPHJ, it removed the reference to “positive response” from future letters. Rust Decl. at ¶ 25.

Thus, MPHJ’s early reference to a “positive response” was both factually true, and believed by it to be true. Moreover, that MPHJ was very reasonable in this regard is further evidenced by the fact that it removed the statement when its own experience began to demonstrate that it was not receiving a “positive response” from many recipients.

This is also an allegation in which the *Innovatio* rule is highly relevant. Even if the reference to “positive response” had even been untrue, it could not be considered material to the central message of the communication – which was that the recipient needed a license if it infringed and did not need a license if it did not infringe. As such, it could not serve as the basis for a “bad faith” allegation in any instance.

14. Allegation: That It Was Improper For MPHJ To Claim That A Fair Price For A License Is A Payment of \$900-\$1,000 Per Employee

It has also been alleged that the offer of a license for a payment in the range of \$900 - \$1,200 per employee was somehow wrongful. However, on information and belief, to the extent the AG Defendants intend to make this allegation, they have engaged in none of the analysis required under the patent laws to properly assess a reasonable royalty. As such, they could not prove that the request was either objectively baseless, or subjectively baseless.

Furthermore, the offered licensing rate was reasonable and well-grounded. As explained by Mr. Hill, who was counsel for Project Paperless, and later counsel for MPHJ, a consideration of the benefits to be obtained from using a system that satisfies the Klein Patents, and the relevant law in assessing a reasonable royalty, easily suggests that a reasonable royalty per employee could be in the thousands of dollars *per year*. Hill Decl. at ¶¶ 3-15. Both Project Paperless and MPHJ conducted analyses that reached similar conclusions. *Id.*

Further, as Mr. Hill explains, Project Paperless, who owned the patents prior to MPHJ, entered into multiple licenses with entities similar to those contacted in Nebraska by MPHJ that resulted in payments of over \$800 per employee, based on initial offers in the range of \$1,000 - \$1,050. *Id.* at ¶¶ 11, 14. Thus, MPHJ's proposed royalty was supported by evidence of actual licenses, particularly taking into account the common reduction resulting from a negotiated agreement. *Id.* The license request made by MPHJ was reasonable, and simply cannot support any allegation that MPHJ's patent enforcement activity was unlawful.

15. Allegation: MPHJ's Letters Seemed Like "Threats to Sue"

The AG Defendants have contended that the statements made in MPHJ's letters "seem like 'threats to sue,'" and on that basis, violate Nebraska law. Dkt. 22 at p. 21. Of course, as stated *supra*, this argument is wholly without merit, as the Federal Circuit has made it repeatedly

clear that a patent owner has a First Amendment right specifically to “threaten suit for infringement.” *See, e.g., Concrete Unlimited, Inc. v. Cementcraft, Inc.*, 776 F.2d 1537, 1539 (Fed. Cir. 1985) (patentee “did only what any patent owner has the right to do to enforce its patent, and that includes threatening alleged infringers with suit”). Thus, even if it were conceded that MPHJ’s letters represented “threats to sue,” by law, they could not be unlawful under the federal patent laws with which the state laws may not conflict.²⁴

16. Allegation: That MPHJ Threatened To Sue In Two Weeks, But Has Not Yet Filed Suit

The AG Defendants have also complained that the third letter allegedly indicated MPHJ would sue in two weeks if the recipient did not respond. This simply misreads the letter, and also plainly is immaterial. First, the Court need only read the letter to see that it says if MPHJ does not hear from the recipient in two weeks, MPHJ will be “forced to file a Complaint,” and later says that if the recipient does not respond in two weeks that “litigation will ensue otherwise.” Exh. C. But, importantly, the letter does not say when such suit will be filed. In other words, the letter establishes a “safe harbor” of two weeks for the recipient to further consider the matter (after having received two prior letters on the same subject). But it nowhere states that suit automatically will be brought on the 15th day. MPHJ made no commitment to when that suit would be filed. Various considerations could reasonably go into that decision. Among other things, experience demonstrated that a number of recipients did respond to the third letter but did so well after the two week deadline. It could be reasonable for MPHJ to allow extra time for recipients to respond. It could even be reasonable for MPHJ to assess the

²⁴ The fact that a draft complaint was attached to the third letter simply has no bearing, as the draft complaint conveys the same threat to sue if the entity continues to infringe MPHJ’s patents. A federal court in Louisiana agreed with this conclusion with respect to the draft complaint attached to a third letter sent by MPHJ’s subsidiary. *See Eng’g & Insp. Servs., LLC*, 2013 U.S. Dist. LEXIS 146849 at *15.

responses it did receive and contemplate sending a fourth letter that addressed concerns raised by other recipients. There were a number of valid reasons for MPHJ to conclude that it need not file on the 15th day, as suggested by the AG Defendants.

Further, even if the letter were construed to threaten suit, the law is clear, as noted above, that a patent owner has a right to do so. Indeed, there is at least one case involving a missed two-week deadline, and concluded doing so did not even support finding personal jurisdiction over the sender in the recipient's state. *See, e.g., Sinclair v. StudioCanal S.A.*, 709 F. Supp. 2d 496 (E.D. La. 2010) (threatening infringement suit "within two weeks" if recipient does not respond to demand letter is insufficient to justify exercising personal jurisdiction over the out-of-state patent owner who sent the demand). Not filing in two weeks cannot be the basis of any finding of bad faith because it is both not supported by the language of the letter, not supported by the law, and, of course, is immaterial.

The AG Defendants have also alleged that neither MPHJ, nor its counsel, ever intended to sue. This is simply false and can never be proven by the AG Defendants.²⁵ Indeed, the July 15 letter explained to the contrary. And MPHJ has a Motion pending even now seeking relief to permit it to file suits. Dkt. 53. In addition, it may also be considered that MPHJ has had a number of unusual factors to contend with that it did not anticipate, including the unwarranted interference by the AG Defendants. In addition, MPHJ has engaged and reached an agreement

²⁵ The AG Defendants have said to this Court and the media that MPHJ's counsel has a practice of sending letters, and not bring suit, or bringing suit but not serving the suit. Publicly available dockets of the federal district courts will easily demonstrate that this allegation is a falsehood. Public records easily will establish that Farney Daniels represents both plaintiffs and defendants in patent cases in dozens of district courts around the country, in the International Trade Commission, and in the Federal Circuit. It routinely engages in patent litigation. It is far more unusual for it to represent a client in a patent enforcement effort that involves correspondence, but for the reasons explained elsewhere in this Memorandum, such an approach on behalf of MPHJ was necessitated by the nature of the Klein patents and the potential infringers Farney Daniels' client chose to pursue.

with Canon that covered a significant number of otherwise infringing businesses. MPHJ also has been in active negotiations with other companies and is near agreement with a second major company.

Because of the large amount of prior art cited to the company, it has also made sense for the company to provide that prior art to the Patent Office for it to consider prior to issuing the latest patent, the '173 patent. That patent has now been issued over all of the prior art that anyone has been able to locate, and strongly reinforces the assertion that the patents are valid. Because the claims of the '173 Patent include some requirements in addition to those required by the '410 claims, considering asserting that patent requires MPHJ's consideration of how to properly address its infringement. In short, MPHJ has every intention of bringing suit. That is has been prudent in pausing to first consider the various factors which have arisen simply cannot be the basis for proving any of its conduct has been wrongful. Further, as noted, the Federal Circuit has made it clear that a patent owner has a right to threaten suit, and that right cannot additionally require that the patent owner follow up on every threat, without having the right to take into account new or changed circumstances.

B. The Few Specific Identified Recipients Complained Of By The AG Defendants Do Not Support Their Accusations

The AG Defendants, both in their filings to this Court and in the media, have characterized MPHJ's patent enforcement efforts as being in bad faith with respect to three Nebraska entities: Voices of Omaha, Nebraska Hematology Oncology and Phelps County Emergency Management. As an initial matter, and as repeatedly explained *supra*, by law MPHJ may actively pursue infringement claims against these groups – their characterization as non-profits and health facilities does not immunize them from patent infringement claims. However, as explained, MPHJ chose not to pursue licensing efforts with respect to these entities.

As explained *supra*, MPHJ retained Mr. DeBlasio to assist it in identifying infringing entities. With Mr. DeBlasio's assistance, MPHJ determined infringers using their employee size and Standard Industrial Classification ("SIC") code – which produced only those entities having a certain size and engaging in a certain type of business activity. DeBlasio Decl. at ¶ 4. Regarding the reliability of this information, Dunn & Bradstreet and the United States Securities and Exchange Commission rely heavily on SIC codes in compiling business information. DeBlasio Decl. at ¶¶ 5-6. These SIC codes are self-reported, meaning they are obtained from information a company provides on census or survey reports, or when registering or obtaining a license through state agencies. DeBlasio Decl. at ¶ 6. Importantly, even though there are a total of 996 SIC codes, the list of companies provided to MPHJ were chosen by MPHJ to be limited to only 54 of these SIC codes – which intentionally excluded non-profit organizations and certain health-care facilities. DeBlasio Decl. at ¶ 5.

Below, MPHJ explains why each specific organization complained of by the AG Defendants inadvertently received letters, and the extent of MPHJ's licensing efforts with respect to these entities after it received knowledge of the error. Far from demonstrating wrongful conduct on the part of MPHJ, instead MPHJ's conduct with respect to these entities supports the conclusion that it was acting reasonably under the circumstances.

1. Voices of Omaha Inc.

Voices of Omaha, Inc. is a company the AG Defendants have alleged as showing that MPHJ's enforcement activity was improper. However, the evidence demonstrates to the contrary. The information MPHJ was provided about Voices of Omaha indicated that it was an entity engaged in "Business Consulting" and had between 20-49 employees. DeBlasio Decl. at ¶ 11. Nothing in the information provided to MPHJ suggested that Voices of Omaha was a smaller non-profit organization. While experience has indicated that the information provided

by MPHJ's consultant has generally been accurate, there have been a few exceptions. Voices of Omaha happened to be one of them.

However, the important point regarding Voices of Omaha is that as soon as that entity contacted MPHJ and informed MPHJ of its non-profit status, MPHJ immediately ceased any licensing activity with respect to them. Rust Decl. at ¶ 26. MPHJ subsequently sent them a letter providing them written confirmation that MPHJ considered the matter closed. *Id.* Thus, the Voices of Omaha situation may serve as an illustration that there were some errors in the commercially available databases upon which MPHJ's consultant relied, but it does not provide evidence that MPHJ acted unreasonably. MPHJ made the AG Defendants aware of that fact prior to their issuance of the Cease and Desist Order. *See* Dkt. 82-10 at pp. 5-6 ("One of the companies you reference in your letter was Voices of Omaha. AccNum learned in March that they were too small, and also a non-profit, and discontinued any licensing attempt at that time. A letter was recently sent to them confirming the matter was closed."). Thus, the circumstances associated with Voices of Omaha do not support that MPHJ engaged in any subjectively baseless activity, or that its conduct was unlawful.

2. Nebraska Hematology Oncology PC

Nebraska Hematology Oncology PC is another company that has been raised by the AG Defendants. However, the information provided to MPHJ by its consultant indicated that this entity was a Medical Laboratory having between 20-49 employees. DeBlasio Decl. at ¶ 11. This entity was not identified by SIC code as a physician's office, but rather, as a laboratory. Moreover, its name did not appear inconsistent with it being a Medical Laboratory, and thus MPHJ did not catch in its review of the list provided by the consultant that the entity was a doctor's clinic rather than a Medical Laboratory (MPHJ has chosen to not seek to license doctors, and would have not contacted the entity otherwise).

Again, MPHJ's conduct with respect to this entity again shows that it acted properly. In the case of Nebraska Hematology Oncology, the fact that it was a doctor's office and not a Medical Laboratory became a moot point because the company contacted MPHJ to let it know that it did not have a scanner connected to a LAN and thus did not satisfy the checklist provided in the letter. Rust Decl. at ¶ 27. As soon as MPHJ was provided this information regarding the entity, it ceased any further licensing efforts. *Id.* The AG Defendants were made aware of that fact prior to their issuance of the Cease and Desist Order. *See* Dkt. 82-10 at pp. 5-6 ("In April, Nebraska Hematology Oncology informed BriPol they did not have a scanner connected to a network in the manner required by the patents, and BriPol discontinued any licensing activity at that time. In June, BriPol sent a letter to Nebraska Hematology Oncology confirming the matter was closed.").

3. Phelps County Emergency Management

Phelps County Emergency Management is an entity that the AG Defendants have repeatedly raised in this Court and in the media as evidencing improper conduct by MPHJ. *See* Dkt. 59 at pp. 11-12. In particular, the AG Defendants have focused on the fact that the contact person at Phelps County Emergency Management to whom MPHJ's correspondence was addressed was a Mr. Eldon Steinbrink. The AG Defendants claim that Mr. Steinbrink is now retired. But the AG Defendants' allegations with respect to the correspondence sent to this entity are again not supported by any facts that demonstrate that MPHJ's conduct was wrongful or subjectively baseless.

To begin with, MPHJ's consultant identified Phelps County Emergency Management as an entity engaged in Management Consulting Services, and having 20-49 employees. DeBlasio Decl. at ¶ 11. It was not evident based upon this information that this entity was not a private business engaged in Management Consulting. And, like non-profits, local governmental entities

do not have any immunity from patent infringement (unlike states). *See Lincoln Cty. v. Luning*, 133 U.S. 529, 230-31 (1890).

But the issue the AG Defendants repeatedly raise relates to the fact that the letter was addressed to Mr. Steinbrink. This assertion is simply frivolous. It is evident from the letter that it was not being sent to Mr. Steinbrink in his personal capacity. It was instead being sent to the organization of which he was the identified contact. Indeed the letter identified Mr. Steinbrink as the “Chairman.” Rust Decl. at ¶¶ 28-29. No response from either Phelps County Emergency Management or Mr. Steinbrink ever was received. *Id.*

If Phelps County Emergency Management forwarded what was plainly a business letter to Mr. Steinbrink, rather than providing it to Mr. Steinbrink’s replacement at the organization, MPHJ can hardly be faulted for that confusion. Given the evidence provided in this Memorandum, it is evident that MPHJ had no interest in contacting Mr. Steinbrink personally.²⁶ It is also evident that had Phelps County Emergency Management simply contacted MPHJ and informed it of its status, that MPHJ would have discontinued licensing activity with it as it has done with Voices of Omaha. In any event, this entity was sent a letter generally informing it that MPHJ was suspending its licensing activity subject to further review. Having been provided with this further information regarding the entity, plainly MPHJ will not initiate further licensing activity with respect to the entity. *Id.* at ¶ 30.

CONCLUSION

For the foregoing reasons, MPHJ respectfully requests that this Court grant its Motion for Preliminary Injunction With Respect to Patent Inquiry, Licensing and Notice Correspondence.

²⁶MPHJ’s consultant, in his Declaration at ¶ 13 explains how commercially available databases identify contact persons for organizations, and how the error with respect to Mr. Steinbrink may have occurred. DeBlasio Decl. at ¶ 13.

November 19, 2013

MPHJ TECHNOLOGY INVESTMENTS,
LLC, Plaintiff-Intervenor

By: /s/ W. Bryan Farney

W. Bryan Farney (admitted *pro hac vice*)

FARNEY DANIELS PC

800 South Austin Avenue, Ste. 200

Georgetown, Texas 78626

(512) 582-2828

bfarney@farneydaniels.com

M. Brett Johnson (admitted *pro hac vice*)

FARNEY DANIELS PC

8401 N. Central Expressway, Suite 280

Dallas, Texas 75225

(972) 432-5780

bjohnson@farneydaniels.com

Steven E. Achelpohl #10015

Gross & Welch P.C., L.L.O.

1500 Omaha Tower

2120 South 72nd Street

Omaha, Nebraska 68124-2342

(402) 392-1500

sachelpohl@grosswelch.com

CERTIFICATE OF SERVICE

I hereby certify that all counsel of record, who are deemed to have consented to electronic service are being served November 19, 2013, with a copy of this document via the Court's CM/ECF system.

/s/ W. Bryan Farney _____
W. Bryan Farney